



Ditch the Larger Banks for Laurentian Bank of Canada

Description

With markets hitting all-time highs, it's increasingly difficult to find reliable dividend-paying companies at fair prices.

Laurentian Bank of Canada ([TSX:LB](#)) is a regional bank serving the province of Québec. The company operates a network of over 150 banking branches and 30 commercial banking centres, along with 15 brokerage offices. Through this network the company provides personal and commercial banking products and services.

If you're looking for a decent yield trading at a reasonable valuation, these shares might be for you.

Earn a reliable 4.5% dividend

Late last year Laurentian upped its quarterly dividend from \$0.52 a share to \$0.54. This represents the fifth straight year of dividend increases. The bank has steadily increased its dividends from \$0.23 since 1999 while never missing a payment.

The company's dividend yield is decently higher than its larger Canadian peers such as **Royal Bank of Canada** and **Toronto-Dominion Bank** which boast yields of 3.9% and 3.5%, respectively.

Macro concerns have hit shares

Multiple analysts have highlighted the challenging banking environment that lay ahead for the entire industry, with multiple firms lowering their price targets. Most of the concerns deal with a lagging Québec economy and an overheated real estate market. This has helped push shares down around 8% in recent months.

RBC Economics Research estimates that the Québec economy grew a mere 1.9% in 2014, with a lower anticipated 1.8% rate in 2015. This lags behind overall Canadian GDP growth of 2.3% in 2014 and 2.5% in 2015.

Despite the lackluster economic backdrop, Laurentian has been performing quite well. EPS last year

was up nearly 13% with returns on equity of around 11%. The bank was able to grow its commercial loan portfolio by 16% while keeping loan losses impressively low. According to the CEO, "In an environment of slowing consumer loan demand and compressed margins, our rigorous control over expenses and the sustained credit quality of the loan portfolio contributed to the good performance."

The bank is increasingly diversified geographically

Laurentian has focused on increasing its nation-wide presence in Canada and plans on stressing multi-regional growth in the coming years. Already, approximately 50% of earnings were generated outside Québec in 2014.

The bank's CEO believes there are numerous market niches that are too small for its behemoth competitors to tap. Just this year he said that the company has "expressly made the choice not to be everything to everyone, but rather, to select lesser-served market niches in which we can provide clients with exceptional expertise and added value."

Valuation is still cheap

Despite a higher dividend and stable performance, shares of the smaller Laurentian Bank trade at a discount to its larger peers. While Laurentian trades at less than 11 times the last 12 months earnings, both Royal Bank of Canada and Toronto-Dominion Bank trade at roughly 13 times.

On a price-to-book basis, Laurentian trades at a mere one times book value, compared with 2.2 times for Royal Bank of Canada and 1.8 times for Toronto-Dominion Bank.

Stick with this Canadian bank

While there are macro concerns for the Canadian economy overall, investors can still insulate themselves by owning high-quality businesses at cheap prices. Especially when compared with larger peers, Laurentian Bank looks to have a healthier business, higher dividend, and lower valuation.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. TSX:LB (Laurentian Bank of Canada)

Category

1. Bank Stocks
2. Investing

Date

2025/08/26

Date Created

2015/05/19

Author

rvanzo

default watermark